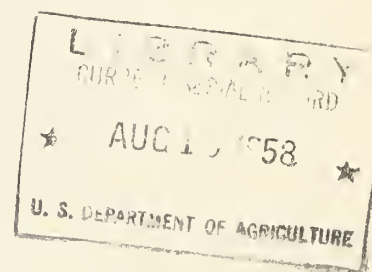


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**CREDIT CONTROL IN SELECTED RETAIL
FARM SUPPLY COOPERATIVES,
AREA II**



BY JOHN M. BAILEY

**FARMER COOPERATIVE SERVICE
U. S. DEPARTMENT OF AGRICULTURE
WASHINGTON 25, D. C.**

SERVICE REPORT 36

MAY 1958

Area II includes Washington, Oregon, Idaho, and Utah

FARMER COOPERATIVE SERVICE

U. S. DEPARTMENT OF AGRICULTURE

WASHINGTON 25, D. C.

Joseph G. Knapp, Administrator

The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, financing, merchandising, product quality, costs, efficiency, and membership.

The Service publishes the results of such studies; confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

CONTENTS

	<u>Page</u>
Highlights.....	i
Purpose and method of study.....	1
Credit policies.....	2
Terms of policies.....	2
Managers' appraisals.....	3
Changes in policies.....	3
Credit extension practices.....	3
Policy announcement.....	3
Applications and investigations.....	3
Responsibility for extending.....	4
Employees' selling approach.....	4
Allocation of credit costs.....	4
Need for credit.....	5
Review of practices.....	5
Minimizing credit sales.....	6
Special problems.....	6
Credit collection practices.....	6
Responsibility for collection.....	6
Statements.....	7
Personal visits.....	7
Use of notes.....	7
Collection agencies.....	7
Other practices.....	8
Use of credit agencies.....	8
Analysis of credit operations.....	9
Increased use of credit.....	10
Age of accounts.....	11
Year-end versus monthly average accounts.....	12
Monthly trends.....	12
Cost of credit.....	16
Credit costs in cooperatives studied.....	16
Economies from borrowing to pay cash to farm supply cooperative.....	18
Patrons using credit.....	18
Area comparisons.....	20
Appendix.....	22

HIGHLIGHTS

Developing effective credit controls is one of the most difficult problems confronting farm supply cooperatives. Some factors affecting credit such as technological changes and declining farm incomes are beyond the influence of the cooperative. Others are internal in nature, such as type of credit policy and operating procedures, and can be influenced by the cooperative.

This study -- one in a series of area credit studies -- deals with policies, practices, and trends of local farm supply cooperatives in the Pacific Northwest. Eleven diversified supply associations in Washington, Oregon, Idaho, and Utah provided information on their credit operations during the 5 years, 1951-52 through 1955-56. These cooperatives were considered typical in general operations and above average in credit performance.

A review of their credit programs and analysis of credit operations should provide a basis for internal credit improvement by other farm supply distributors. This is, however, simply a factual report of all the programs. It has not attempted to cite any one of them as the best method for handling credit.

Policies and Practices

** All but two associations had official credit policies. Their due rates varied from the 10th of the month after purchase to 30 days after the month of purchase.

** Most associations advised patrons of credit policies although some managers thought such action would increase credit volume.

** While oral understanding of policies was reached with patrons at the time credit was extended, some managers thought too much was taken for granted by both parties.

** Managers were evenly divided as to preference on who was to investigate credit applicants -- association personnel or credit bureaus.

** Charges for credit were included in credit policies or practices of 10 associations. Such charges ranged from 6 to 12 percent on outstanding accounts.

** Charges for credit at rates higher than commercial interest contributed to improved credit control. No loss in volume was reported by associations charging for credit.

** There was little expression of intent to be more, or less, lenient in credit practices. Dissatisfaction with recognized shortcomings was not sufficient to overcome resistance to change.

** Management burdened itself with the credit problem. In all but three associations, credit problems had never received a floor discussion at member meetings in the 5 years covered by this study.

** Activities thought helpful in minimizing credit sales were: (1) Stressing cash trading; (2) publication of credit policies; (3) cash discount programs; (4) diligent review of accounts receivable; (5) determined efforts to cope with credit; and (6) control and minimizing of accounts receivable by special effort as demonstrated by two associations in their effective drives to reduce accounts at fiscal year-end.

** Patrons in nine associations were encouraged to use services of existing credit agencies. Production credit associations, Farmers Home Administration, local banks, and a rural credit union were sources of patron credit. Personnel of supply cooperatives recognized the need to further improve working relations with credit agencies.

Analysis of Credit Operations

** Total farm supply sales increased an average of 20 percent but accounts receivable jumped an average of 92 percent from 1951-52 through 1955-56. Credit sales averaged 68 percent of total sales in 1955-56 compared with 62 percent in 1951-52.

** Accounts receivable were less current in 1955-56 with 60 percent of them over 30 days of age compared with 52 percent in 1951-52.

** The average monthly dollar volume of accounts receivable was 142 percent of the fiscal year-end total in 1955-56. The proportion of total assets in accounts receivable at year-end rose from 10 percent in 1951-52 to over 14 percent in 1955-56.

** Estimated credit costs averaged \$2.27 for each \$100 of credit sales in seven associations in 1955-56. Interest and bad debts accounted for about half of such costs.

** Four out of 5 patrons used credit one or more times in the last fiscal year at the 11 cooperatives, but only 2 of 5 patrons had accounts at the close of the year.

** The 10 largest accounts in each association represented only 2 percent of total patrons, but 25 percent of total accounts receivable. The purchasing volume of these 10 patrons with the largest accounts was about 4 percent of total sales.

** The cooperatives in this area study compared unfavorably with those in Area I in all the measures listed. They had 23 days' sales in accounts receivable at year-end compared to 14 days for the associations in the first study. Accounts receivable had increased 92 percent in the 5-year period compared to 62 percent in Area I. In addition to accounts receivable increasing in size, they were also less current, being only 40 percent under 30 days compared to 53 percent for the cooperatives in Area I. The Pacific Northwest associations also lagged behind Area III in credit performance.

Suggestions for Handling Credit

** The wide variation in policies, practices, and operating results of the associations in this study gave no indication of any one best credit policy or practice.

** Good credit performance seems related to: (1) Wide acceptance of established goals, (2) favorable attitudes and enthusiasm of those directly concerned with carrying out stated programs, (3) diligence in appraisal efforts, and (4) the ability of the personnel to handle credit as well as commodities and other services.

** Too many directors and managers have failed to come to grips with the problems of extending credit and collecting accounts receivable. Their practices are determined by expediency and economic conditions rather than by sound policies approved by the membership. As a result, practices often determine policies.

** A credit policy developed by directors, understood and approved by member-patrons, and supported by employees is a necessary beginning for sound credit operations. A policy is worthwhile to the extent it accomplishes desired goals.

** The data obtained from the associations in this and two other areas provide a framework of policies and practices that should be helpful in improving credit operations. The following suggestions should assist in controlling credit in farm supply cooperatives:

1. Establish realistic policies by action of the board of directors.
 - a. Minimize exceptions among patrons and commodities.
 - b. Reduce manager-patron tensions by enabling manager to carry out policy rather than determine it.
 - c. Obtain approval of policies by member-patrons. Provide for discussion of credit at membership meetings.
2. Adopt specific programs for extending credit.
 - a. Require a formal application and review it with applicant.
 - b. Discuss policy and terms for mutual understanding.
 - c. Hold manager responsible for administration.
 - d. Have employees "sell" credit policy along with products.
 - e. Use a list of patrons who must pay cash.
 - f. Establish regular board review of practices and individual accounts.
3. Establish sound collection procedures and follow through.
 - a. Have current knowledge of individual accounts. This requires monthly aging of all accounts.
 - b. Carry out all terms in detail.
 - (1) Go after payment on date agreed.
 - (2) Let account-holder know the association expects payment.
 - c. Maintain contact with accounts by monthly statements, letters, memos, and the like.
 - d. Protect the association by using secured notes when an account first becomes overdue. Use collection agencies and legal procedures as last resort.

4. Recognize and allocate the costs of credit.
 - a. Recognize credit as a service and set a price on it.
 - b. Allow a cash discount or make a charge for credit.
5. Encourage and assist farmers to use existing credit agencies.
 - a. Recognize inefficiencies resulting when both farm supply cooperatives and credit agencies perform credit services.
 - b. Establish close working relationships with production credit associations, credit unions, local banks, and other credit agencies.

CREDIT CONTROL IN SELECTED RETAIL FARM SUPPLY COOPERATIVES

Area II - Washington, Oregon, Idaho, and Utah

By John M. Bailey
Farm Supplies Branch
Purchasing Division

Many farm supply cooperatives now perform a credit service for patrons. This is causing much alarm among those responsible for maintaining the financial soundness of these associations. It's a service that has been added and increased over the years; its use varies with patrons and commodities. Control of the service frequently has not been effective and its cost is not well known or appreciated. With charge sales amounting to more than half of total sales, credit becomes an important farm supply service.

The greater use of credit has been influenced by several factors. First, farmers' costs of production have climbed. Additional production expenses resulting from new and increased technology and rising prices have contributed to the increased expenditures. Second, declining net income in agriculture has squeezed the farmers' cash position. And third, the increased emphasis on, and use of, consumer credit in retail business has encouraged its use among all local farm supply distributors.

The administration of sound credit programs now challenges farm supply cooperatives.

PURPOSE AND METHOD OF STUDY

This study is one of a series that covers general retail farm supply cooperatives in different areas of the United States. The initial study was reported by Farmer Cooperative Service in General Report 35, June 1957. It covered eight cooperatives in Michigan, Indiana, Ohio, and Pennsylvania. The present report covers 11 local cooperatives in Washington, Oregon, Idaho, and Utah. Similar studies and reports will be prepared by geographic areas within which cooperative operations and organizations are similar. It is planned to later consolidate individual area reports into one general publication.

Area studies will attempt to determine (1) the nature and trends in credit used by local cooperatives handling diversified lines of supplies and equipment, and (2) practical policies and procedures for successfully controlling credit operations among such associations.

The local associations included in this study were members of State or regional farm supply cooperatives. The wholesale cooperatives suggested names of local cooperatives that were considered comparable in type of diversified supplies handled and superior in credit practices. Farmer Cooperative Service selected the participating locals.

Note: Appreciation is expressed to officials of the farmer cooperatives who provided information on their credit operations, and to J. Warren Mather, Chief, Farm Supplies Branch, Farmer Cooperative Service, for assistance in planning and developing this study.

Data for the study were obtained by personal interviews with managers and other key personnel, and included their views and experiences in administering credit services. Credit information included policies, practices, and operating data. Trends were established by analysis of sales and operating data for the 5 years, 1951-52 through 1955-56.

CREDIT POLICIES

Credit policies should provide the basis for all credit practices. The support of management and patrons is required for effective application of credit policies.

Boards of directors established credit policies at 8 of the 11 associations in this study. Two cooperatives had no official credit policies, and their managers and boards of directors determined practices as occasion required. One association, a local branch, followed the credit policy established by its central office.

Terms of Policies

Due dates varied from the 10th of the month after purchase to 30 days after the month of purchase. Distribution of associations according to credit policies used was as follows:

<u>Credit policy</u>	<u>Number of associations</u>
Due 10 days after month of purchase	5
Due 15 days after month of purchase	2
Due 30 days after month of purchase	3
Total	10

Charges for credit varied from 6 percent to 12 percent on overdue accounts. The time when the association began charging interest varied from the 10th of the month after purchase to as much as 90 days after the month of purchase. In two associations where policies prescribed a charge for credit, no charges had been made.

At one association daily credit sales slips were held for as long as a week without processing. If payment was made within a week, the sale was counted as cash. Another variation was the requirement of cash for all purchases after a patron's account became 60 days old. Another association required cash when an account became 90 days old.

Exceptions to these general credit policies on a commodity basis were limited to fertilizer and bale ties. One association allowed credit up to 6 months with no charge, while another required cash for all purchases of such merchandise.

Managers' Appraisals

Responses of the managers varied considerably to a question on their satisfaction or experience with existing credit policies. Eight managers were satisfied with their credit policies although three of these also recognized weaknesses in them. A weakness mentioned was the lack of sufficient guides by directors on practical operations for managers. While flexibility was considered an advantage in some associations, it was believed to be a disadvantage by two managers because credit got out of bounds due to inadequate restrictions.

At four associations a charge for credit was mentioned as important in the successful operation of credit. Another association representative believed the charge made for credit was important in the operation of its credit program because its rate was higher than the commercial rate. This was thought to discourage patrons from requesting credit at the cooperative. Another manager thought an interest charge after 30 days would be better than the present 90-day practice. Stressing the desirability of cash trading by one cooperative was considered very important in the success of its program of holding credit to a minimum.

Changes in Policies

Policies established in the last 5 years included raising of interest rates and abandoning a 2 percent cash discount. In three associations interest had been charged for at least 3 years and in another association for 10 years. Managers of these associations reported no loss in volume resulting from the practice of charging interest. One association had become more strict in its follow-up and another had concentrated its efforts on minimizing year-long accounts.

CREDIT EXTENSION PRACTICES

The patron's understanding of policy shows up in credit practice. For patrons to adhere to policy, they must be informed about it.

Policy Announcement

Eight associations advised patrons of credit policies by oral or written means. The three generally not advising their patrons were afraid credit would be abused if all the patrons knew of the program. The manager of one of these latter associations had never used credit to increase volume. He thought a statement of credit policies to the patrons would invite credit business.

In addition to oral statements, three associations relied on printed material for getting credit information to patrons. The printed statements were made available to the member by letter and by posters at visible locations in the store. One association discussed its credit program at annual meetings.

Applications and Investigations

The type of information sought about a patron desiring credit varied. It included ability to pay, equity in the association, banking connections, and names of previous suppliers. Four associations relied on formal credit applications and five used ratings of credit bureaus.

Five managers said an outside credit bureau could provide the best type of credit investigation because of the specialized nature of their services. Such agencies were believed to have less personal bias in their findings.

Six managers preferred an investigation conducted by association personnel. Some liked the idea of personal acquaintance and the closer contact resulting from this, and one stressed the ability of association personnel to be more precise and current in the type of information obtained.

Even though only eight associations publicized their credit policies, all of them tried to have definite understandings and agreements with patrons at the time credit was extended. In nine associations this was done verbally with the applicant. One association required patrons to sign sales slips with regular printed terms; in another sales slips with specially written terms were signed by some patrons.

In arriving at an understanding and agreement, one manager asked "How long do you want?", and "How much can you pay per month?" Another, while relying on oral explanation, believed that too much was assumed by both parties. Still another manager using oral explanations always insisted on formal applications and terms for doubtful or new accounts.

Responsibility for Extending

In all associations except one, the manager was responsible for determining if credit would be granted to individual patrons. In one association two board members advised the manager on a monthly basis. Only one association had an office manager responsible for granting credit.

Employees' Selling Approach

Managers were asked to describe the selling approach of their employees handling credit. Managers of seven associations reported that employees asked patrons for cash at the time of sale with no mention of credit. In two associations employees made no differentiation between a cash or credit approach, but left the choice with the patron. An offer of credit with no mention of cash was common procedure in two associations. In one of the latter, the patrons accepted credit as standard operating procedure, so no effort was made to restrict its use.

Allocation of Credit Costs

In an effort to equitably allocate the cost of credit and to encourage cash trading, cash discounts were allowed by four associations. A 2 percent discount plan was used by three associations, and payment within 5 days for fuel deliveries was considered as cash. A volume and cash combination discount on fuel was in effect at one association. There a discount of from 1 to 1½ cents a gallon was given, depending on the volume, if payment was made within 15 days.

A charge for credit was a part of credit policies or practices in 10 associations. The rates were:

<u>Charges for credit</u>	<u>Number of associations</u>
6 percent - 30 days after purchase	3
6 percent - 90 days after purchase	1
7 percent - no stipulated time	1
8 percent - 30 days after purchase	1
12 percent - 45 days after purchase	4
Total	10

In practice, though, two associations seldom made any charge for credit. One manager, who made no charge for credit, believed that charging interest gave the idea of an offer -- that the association was soliciting credit business.

Advance deposits by patrons were used by three associations. In two instances, they were used in connection with cash discount programs and patrons maintained balances to assure a discount. A budget plan for fuel delivery was the basis for the other advance deposit program. The most common objection against advance deposits was the additional book work required.

Need for Credit

Establishment of a strict cash policy by the farm supply cooperatives studied was not favored. Nine managers thought volume would drop if cash were required. One believed the effects of a cash policy would be most severe on small farmers who would be the least likely to have, or be able to make, credit arrangements with credit agencies. One manager based his forecast of a volume decline on the experience of a neighboring cooperative that had attempted a strictly cash practice. Restricting credit terms was thought to have about the same net effect as going to cash trading.

Views as to the possible effects of more liberal credit policies were more varied. Three managers expected an increase in volume, 2 anticipated only a slight increase, and 2 others predicted no change in volume. Managers generally feared abuses of more liberalized credit policies with resulting larger accounts receivable and poorer risks.

Review of Practices

Credit practices and accounts receivable were reviewed by the board of directors monthly in 4 associations and quarterly in 3 associations. Review practices were generally a byproduct of checking accounts receivable as the latter operation was given most consideration. Individual accounts were aged for board review in seven associations.

The review by the board gave consideration to the size of accounts, probable credit limits, time for starting collection procedures, comparison of accounts with the preceding year's, and the status of crop and income prospects.

Credit problems had received a floor discussion at member meetings in only three associations within the last 5 years. Only one association had made an analysis of credit costs within the same period.

Specific recommendations for improving use of credit were made by auditors in two associations in the 5-year period. Attention was generally called to accounts and status of trends and then mostly in a routine manner. The credit suggestions of an auditor, however, became the credit policy at one association.

Minimizing Credit Sales

Practices and programs reported as effective in minimizing credit sales included: (1) Constant efforts to impress patrons of the desirability of cash trading, (2) publication of credit policies, (3) development of cash discount programs, (4) diligent monthly review of accounts receivable, (5) periodic aging of accounts receivable, and (6) determined efforts to cope with credit problems.

Special Problems

Great emphasis was placed on personnel performance in carrying out established association policies. This implied that credit difficulties lay more in the administration of policies than with the characteristics of the policies. This may well indicate how, and probably explains why, one association may have a much better credit operation than another with an identical credit policy. "Selling" a policy to employees and patrons and arousing determination for adherence to it poses a real challenge in improving credit operations.

Petroleum sales created special credit problems because patrons were often not at home at the time delivery was made, or were otherwise unable to make payment at time of delivery. Fertilizer also contributed to credit difficulties because of large seasonal purchases.

The principal difference reported in credit practices between cooperatives and other farm suppliers was the seasonal and sometimes year-long credit offered by other petroleum suppliers. In one area the cooperative manager knew of no other supplier who published a credit policy. Only two managers of cooperatives considered their associations' credit practices to be more liberal than those of other farm suppliers.

CREDIT COLLECTION PRACTICES

Collection practices have much to do with the size and age of accounts receivable as well as losses on bad debts.

Responsibility for Collection

In seven associations the individuals who extended credit were also responsible for collecting it. Financial responsibility of the individual who extended credit was required in only three associations, and here such responsibility applied only to the managers. In two of these, the managers worked on a commission so that the effects of credit sales and accounts were partially compensated for by commissions.

Statements

All the associations sent regular collection letters in the form of monthly statements. Only one association used statements more often than once a month. Personal letters also were used by all associations, but opinion on their effectiveness was divided. Form letters were used in two associations. One of these had each letter typed individually to avoid the appearance of formality.

Personal Visits

Personal visits were made for collection purposes in eight of the associations. One association had a fieldman do personal collecting. The use of the telephone to arrange or make personal calls was reported quite effective.

Only 5 of the 11 associations had made personal visits for collection purposes in the month preceding this study. The average amount of time spent in personal visits during this month was 10 hours, although there was as little as 2 hours and as much as 40 hours put in by two different associations. Personal collection efforts were made in all associations during the last month of their fiscal year. The average number of hours spent was 49 per association with a range of 6 to 100 hours.

Use of Notes

Seven associations used notes to secure open accounts, another started to use them in 1957 for the first time, and those remaining had never used notes.

Interest rates on notes ranged from 6 to 8 percent with four associations charging 8 percent. There was no general length of time for which notes were written. They were adapted to the needs of individual patrons and varied in date of maturity from date of purchase to harvest time. The maximum time was 1 year. In one association patrons who had signed notes were required to pay cash for all purchases while notes remained outstanding. Notes were held to maturity in six associations.

There was an average of nine notes per association at the end of the 1956 fiscal year. The volume of notes held by six associations ranged from \$1,000 to \$4,000, with an average of about \$2,000. Managers reported that patrons did not object to signing notes to cover accounts receivable. In only one association did patrons stop patronizing when asked to sign notes. This occurred where cash trading was required until notes were paid.

Collection Agencies

Eight associations turned some of their delinquent accounts to collection agencies. The amounts ranged from \$35 to a high of \$3,000, with an average of about \$1,250 per association. The proportion realized by associations on such accounts varied from 20 to 50 percent, with an average of about 35 percent. While the proportion collected was quite low, it should be recognized that accounts were turned over to collection agencies only when considered uncollectable by regular association methods.

Other Practices

Other methods employed for collecting accounts included deductions from employees' commissions and application of dividends on stock and patronage refunds. The latter method was considered helpful but the dividends and refunds seldom covered the entire account. The bylaws of one association provided for this method of collection.

Attorneys were used by six associations for collection purposes. In two of these, attorneys were paid \$2 for each letter written to patrons with slow accounts. This method had given satisfactory results. Attorney's services were considered too expensive by one association, and another preferred the results obtained by a credit bureau to those of an attorney.

USE OF CREDIT AGENCIES

Patrons in nine associations were encouraged by employees to meet their credit needs through the use of existing credit agencies. Three associations, making little or no effort to get patrons to use local production credit associations, reported the PCA offices were too distant to be used effectively. PCA offices more than 30 miles from the supply cooperative were considered too distant for adequate services. In addition, two associations reported that PCA personnel encouraged farmers to buy their fuel needs from oil companies giving seasonal credit rather than recommending the local cooperative as a source of supply.

In one association, patrons were taken to the PCA office where introductions were made and arrangements encouraged. Another manager made appointments to meet with the PCA board of directors for consideration of credit possibilities.

The services of a rural credit union were available to patrons of only one association studied. Office space for the credit union was in the offices of the cooperative, and the bookkeeping for the credit union was done by an association employee. The cooperative had undertaken organization and development of the credit union to improve its credit operations.

Local banks were considered good sources of credit by two associations. One association reported a poor response from local banks, and another had been unable to get a local bank to accept its credit papers on the sale of a garden tractor.

The Farmers Home Administration was counted as an important source of credit by three associations. One considered it a principal source of patron credit. In its area, a representative of FHA meets with the board of directors of the cooperative to check over credit problems. The other two associations reported that, in many instances, FHA loaning practices provided insufficient credit to cover all of a patron's farm production expenses. Even though the authorized funds were used in payment of specific expenses, the supply associations were left with accounts unpaid because their patrons' credit lines were exhausted.

Most managers considered that credit agencies needed to do more public relations work as many patrons were skeptical about dealing with them. Several believed that PCA's could improve credit services to patrons of the cooperatives in the following ways: (1) Make their budgets more flexible, (2) extend their services more aggressively over large areas, (3) ear-mark loans

for more specific purposes, (4) have PCA pay accounts owed by its borrowers to designated suppliers upon receipt of signed sales slips.

In the areas where PCA personnel had reportedly encouraged farmers to use seasonal credit provided by major oil companies, the opportunities for better service were two-fold. Managers thought that: (1) PCA's should be more aggressive in meeting the credit needs of farmers, and (2) farmer-owned credit institutions could be aggressive in building volume at farmer-owned supply cooperatives.

Some managers also believed that cooperatives could get their patrons to make greater use of existing credit agencies by: (1) Making a greater effort to cooperate with the agencies, (2) maintaining and providing office space for PCA's and credit unions near cooperative facilities, and (3) "carrying the credit ball" to credit agencies.

ANALYSIS OF CREDIT OPERATIONS

A comparison of credit data for the 5 years, 1951-52 through 1955-56, showed its use and problems had increased. Accounts receivable had risen relative to sales and the proportion under 30 days of age had declined. The following information was based on the associations that had sufficient data for analysis.

Total farm supply sales of 10 cooperatives in this study increased an average of 20 percent from 1951-52 through 1955-56 (table 1). Increases ranged from 5 to 47 percent for 8 associations, and volume declined slightly over the period in 2 associations.

Table 1 - Comparative credit data for 10 farm supply cooperatives in the Pacific Northwest, 1951-52 and 1955-56.

Association code <u>1</u> /	Change in total farm supply sales, 1951-52 through 1955-56 <u>2</u> /	Change in accounts receivable, 1951-52 through 1955-56 <u>2</u> /	Monthly average accounts receiv- able as a per- cent of accounts at end of 1955-56 fiscal year
		<u>Percent</u>	
2	46	196	138
3	29	171	107
4	5	75	132
5	-1	-10	124
6	15	24	178
7	25	61	173
8	47	184	134
9	12	115	167
10	24	43	103
11	-4	56	167
Average	20	92	142
Median	20	68	136

1/ Data not available for cooperative no. 1.

2/ All figures are increases except those with minus signs before them.

Increased Use of Credit

The proportion of sales made on credit increased in seven associations, declined in 1, and remained the same in 1 during the 5-year period (table 2). The increase ranged from 5 to 17 percent among the associations, and the decrease of one association was 8 percent. Credit sales in 1951-52 in nine associations ranged from 37 to 78 percent of total sales and averaged 62 percent. In 1955-56, the proportion of sales on credit ranged from 48 to 83 percent and averaged 68 percent.

With the increases in sales volume and proportion of sales on credit came greater increases in accounts receivable. Increases averaged 92 percent during the 5 years. Only one association had less in accounts receivable in 1955-56 than in 1951-52, while increases in the others ranged up to 196 percent.

The number of days of sales in accounts receivable for 1951-52 averaged 16 compared to 23 for 1955-56 (table 2). They ranged from 9 to 29 days in 1951-52 and from 14 to 34 days in 1955-56, an increase of 5 days from both low and high extremes. The range of increase for individual associations was from 1 to 18 days. One association had 2 days less in 1955-56.

Table 2 - Changes in credit use in 10 farm supply cooperatives in the Pacific Northwest, 1951-52 and 1955-56

Association code <u>1/</u>	Proportion of sales made on credit		Days' retail sales in ac- counts recei- vable at end of year		Proportion of accounts receivable over 30 days of age at end of year		Proportion of assets in accounts receivable at end of year	
	1951-52	1955-56	1951-52	1955-56	1951-52	1955-56	1951-52	1955-56
	Percent		Days		Percent		Percent	
2	65	65	14	28	<u>3/</u>	<u>3/</u>	16	27
3	37	48	16	34	67	82	12	21
4	77	82	16	27	53	59	11	15
5	<u>2/</u> 67	73	23	21	58	45	11	10
6	54	62	13	14	<u>3/</u>	<u>3/</u>	7	7
7	<u>3/</u>	<u>3/</u>	14	18	24	58	8	12
8	63	80	9	20	<u>3/</u>	<u>3/</u>	5	13
9	51	62	9	18	<u>3/</u>	<u>3/</u>	5	9
10	69	61	29	33	74	61	17	20
11	78	83	12	20	39	55	7	9
Average	62	68	16	23	53	60	10	14
Median	65	65	14	21	56	59	10	13

1/ Data not available for cooperative no. 1.

2/ For 1952-53.

3/ Data not available.

Another measure of extent of accounts receivable is the proportion they represent of total sales. This is easier to compute and avoids variations arising from the selection of different numbers of selling days in a year. A maximum 5 percent of total retail sales in accounts receivable is used in some areas as an operating standard. Five percent of sales is comparable to about 15 days' sales. Year-end accounts receivable in this study averaged 5.2 percent of retail sales in 1951-52 but were up to 7.8 percent in 1955-56. Furthermore, they constituted 12 percent of credit sales in the latter year.

Age of Accounts

The age of accounts receivable is a very important measure in credit analysis. It is desirable to have the bulk of the accounts under 30 days of age. No aging was made in some associations and the age categories varied considerably in others.

In six associations with comparable data, the proportion of accounts receivable over 30 days of age increased from 53 percent of total accounts in 1951-52 to 60 percent in 1955-56. The proportion over 30 days of age for individual associations ranged from a low of 24 percent to a high of 74 percent in 1951-52. The range in 1955-56 was from 45 to 82 percent. The range of increases for individual associations was from 6 to 34 percent. Two associations had decreased the proportion of their accounts over 30 days old by 13 percentage points during the period under review.

Another measure commonly used in referring to the age of accounts receivable is the number of days of credit sales they represent. It is commonly called the "collection rate" to indicate how long accounts remain on the books or how fast they are being collected. Because credit terms are generally stated in calendar days rather than business days and for convenience of comparison, the measure of days of credit sales is based on a year of 360 days -- 12 months of 30 days each.

An association with a 30-day credit policy should not have as much as 30 days of credit sales outstanding, if practices follow policy, because many credit patrons pay their accounts in less than 30 days. Thus an average of 30 days would mean some patrons were not paying within the 30-day period. Changes over the 5-year period in the number of days of credit sales in year-end accounts receivable for 8 associations follow:

Association code	Number of days' credit sales in year-end accounts receivable	
	1951-52	1955-56
	<u>Days</u>	<u>Days</u>
2	25	52
3	53	86
4	26	40
5	<u>1/</u> 46	34
8	17	30
9	22	35
10	50	66
11	19	29
Average	32	46
Median	26	38

1/ In 1952-53

The range in days of credit sales in year-end accounts receivable was from 17 to 53 days in 1951-52, with an average of 32 days. In 1955-56, the range was from 29 to 86 with an average of 46 days. Only one association showed improvement during this period.

In 1955-56, the days of credit sales in average accounts receivable were 55, almost 2 months, with a range of from 28 to 92 days.

Year-End Versus Monthly Average Accounts

The importance and magnitude of accounts receivable are most often based on fiscal year-end figures. This is satisfactory for purposes of comparison, but it minimizes the real significance of the credit problem. More accurate than year-end figures is the monthly average of accounts receivable. Sales volume fluctuates seasonally and accounts receivable follow in the wake of credit sales. For the cooperatives studied, monthly average accounts receivable were 142 percent of year-end figures. The range was from 103 to 178 percent (table 1).

Monthly Trends

The supply requirements of agriculture have seasonal peaks, usually in spring and fall. Monthly variations in credit sales and accounts receivable reflect the seasonal pattern of farm supply sales.

Monthly variation in credit sales, as a percent of the 12-month average of such sales, fluctuated from a low of 59 percent in January to a high of 141 percent in April (table 3).

Variation in accounts receivable by months followed the general pattern of credit sales, climbing from a low of 68 percent in February to a high of 134 percent of average in August (table 4).

The effect of year-end closings on accounts receivable is especially apparent in two associations: For association number 4, which closed its year on November 30, November accounts receivable were 76 percent of average and the decrease from the previous month was 49 percentage points. For all associations, November accounts receivable averaged 90 percent of the yearly average and 20 points lower than the previous month. In association number 5, which closed its year on August 31, accounts receivable in August were 80 percent of average and 14 points lower than the previous month. For all associations, accounts receivable in August were 134 percent of the yearly average and up 8 points from the previous month.

These two associations demonstrate that accounts receivable can be controlled and minimized with special effort. The drive to reduce accounts at the end of the fiscal year is effective. The same effort at other times of the year may be equally rewarding.

Total sales, credit sales and accounts receivable based on a 12-month average were all at a peak in April and August (figure 1). Accounts receivable declined slightly in May from April but continued to increase to a high of 134 percent of average in August. Credit sales declined from their April peak of 141 down to 113 percent of average in both June and July, but accounts receivable continued upward to a peak in August.

Table 3 - Monthly variation in credit sales shown as a percentage of 12-month average, 11 farm supply associations, 1955-56

(12-month average for each association = 100 percent)

Association code	Jan.	Feb.	Mar.	Apr.	May	Percent								Range	
						June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Low	High	
1	30	31	62	87	155	136	123	110	161	125	107	73	30	161	
2	62	67	160	117	111	118	100	95	92	113	83	82	62	160	
3	53	49	105	167	152	122	104	107	91	117	65	69	49	167	
4	64	71	111	111	94	140	95	135	107	109	95	58	64	140	
5	112	112	131	104	96	91	74	79	33	101	108	103	74	131	
6	59	63	55	108	122	176	123	195	35	66	76	73	55	195	
7	42	75	63	227	197	43	110	114	110	32	62	74	42	227	
8	56	55	47	162	90	101	122	164	161	106	33	75	47	164	
9	44	54	64	124	94	123	160	189	131	66	36	64	44	189	
10	75	73	74	149	108	113	106	88	107	104	96	106	73	149	
11	41	46	37	192	140	32	127	142	119	93	69	61	41	192	
Average	59	63	87	141	124	113	113	129	113	98	83	77	59	141	

Table 4 - Monthly variation in accounts receivable shown as a percentage of 12-month average, 11 local farm supply associations, 1955-56 1/

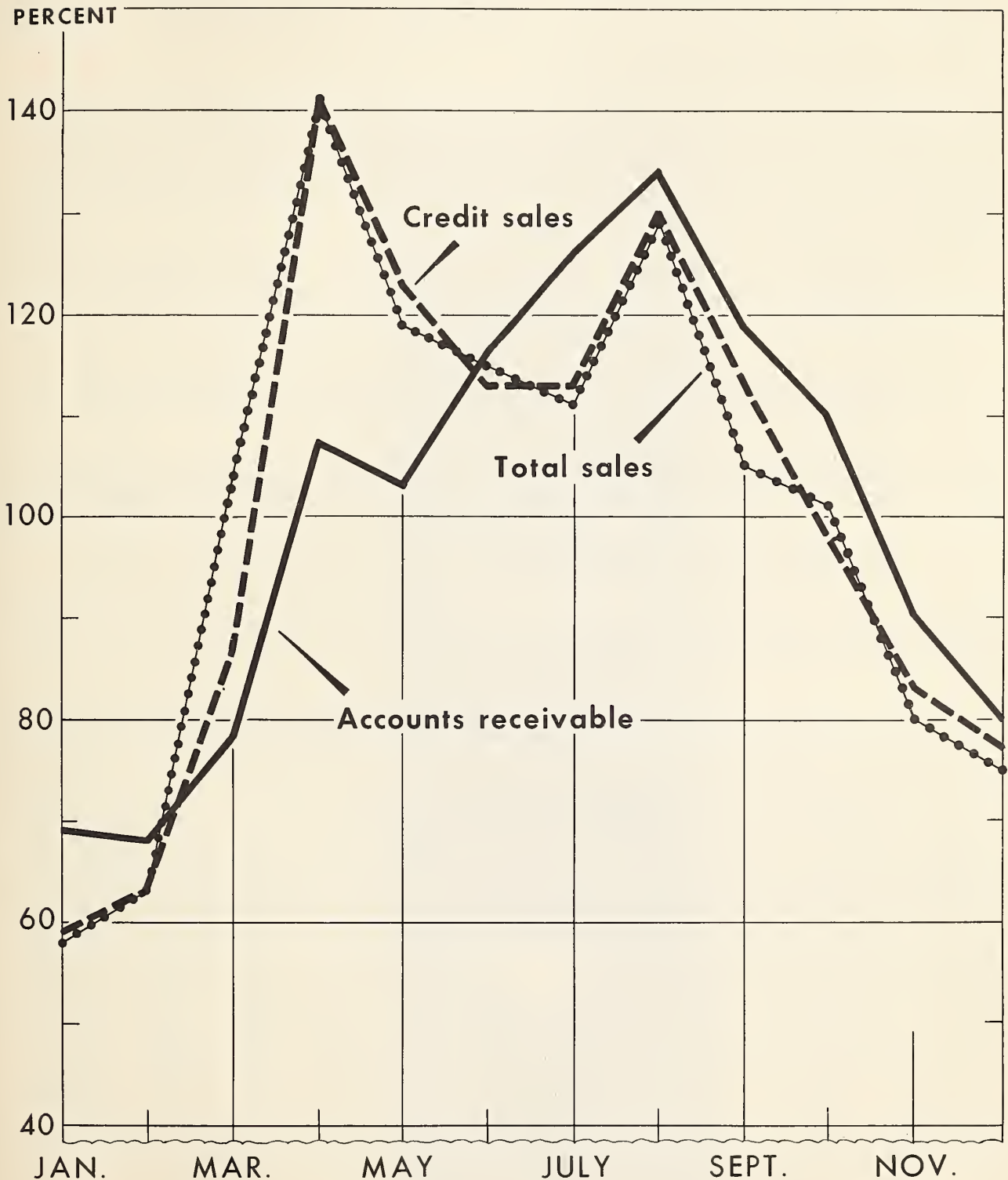
(12-month average for each association = 100 percent)

Association code	Jan.	Feb.	Mar.	Apr.	May	Percent								Range	
						June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Low	High	
															Percent
1	39	30	51	62	66	149	151	169	133	123	88	135	30	169	
2	80	72	93	90	91	110	113	119	118	134	102	72	72	134	
3	83	77	80	95	100	107	110	116	111	119	109	39	77	119	
4	73	74	90	103	81	118	122	136	130	125	76	71	71	136	
5	103	111	115	112	109	103	94	80	80	90	97	96	80	115	
6	61	54	69	99	129	142	153	169	108	95	65	56	54	169	
7	54	65	78	133	141	120	130	122	112	100	86	59	54	141	
8	56	58	52	132	37	99	120	174	162	133	82	75	52	174	
9	57	63	71	103	99	116	156	149	125	109	93	60	57	156	
10	81	78	81	108	101	102	109	111	112	110	104	103	78	112	
11	60	64	81	143	124	111	126	133	114	94	87	61	60	143	
Average	69	63	73	107	103	117	126	134	119	110	90	80	63	134	

1/ Month underlined denotes end of fiscal year for each association.

Figure 1

MONTHLY VARIATION IN TOTAL SALES, CREDIT SALES, AND ACCOUNTS RECEIVABLE FOR 11 FARM SUPPLY ASSOCIATIONS IN PACIFIC NORTHWEST, 1955-56



Cost of Credit

Although credit is presently recognized as a necessary service, its cost to patrons is seldom considered. Charges made for credit by a supply cooperative often cover only interest costs on funds which it extends to patrons. Interest costs are only a fraction of total credit costs.

Credit Costs in Cooperatives Studied

Determining the cost of credit in retail farm supply cooperatives is difficult. To arrive at a precise figure would require cost accounting of a nature not yet practiced by most associations. Representatives of seven associations made estimates of their credit costs in 1955-56. A description of the items used in estimating credit costs follows:

1. Interest was charged at the rate of 5 percent. Capital tied up in accounts receivable was based on the 12-month average of accounts receivable.
2. Extending costs included charges for time needed to establish policies and practices, for explanation to patrons, investigation of applications, and opening of the accounts.
3. Bookkeeping and collection costs included time of manager and clerical employees, supplies, travel, legal expense, and related items.
4. Bad debts were the accounts written off as uncollectable, less any recovered amounts.

Total credit costs ranged from 83 cents to \$3.48 and averaged \$2.27 for each \$100 of credit sales (table 5).

Table 5 - Costs of extending credit in seven local cooperatives in the Pacific Northwest, 1955-56

Assoc- iation code <u>1/</u>	Accounts receiv- able yearly average	Credit costs						Cost per \$100 of credit sales
		Extend- ing	In- terest	Book- keeping	Collec- tion	Bad debts	Total cost	
2	\$ 27,363	\$ 75	\$1,368	\$ 244	\$ 330	\$ 675	\$ 2,692	\$1.95
3	97,753	1,075	4,888	2,800	1,555	-0-	10,318	2.71
5	32,538	600	1,627	2,328	960	1,500	7,015	2.62
6	21,088	300	1,054	1,670	360	100	3,484	2.20
7	104,312	1,071	5,216	4,997	2,303	419	14,006	2.08
8	38,480	203	1,924	480	107	149	2,863	0.83
10	42,882	307	2,144	2,428	1,529	1,543	7,951	3.48
Average	- -	- -	- -	- -	- -	- -	- -	\$2.27

1/ Data not available for associations numbered 1, 4, 9, and 11.

Figure 2

CREDIT COSTS IN 7 FARM SUPPLY COOPERATIVES, AREA II, 1955-56

Costs per \$100 of Credit Sales

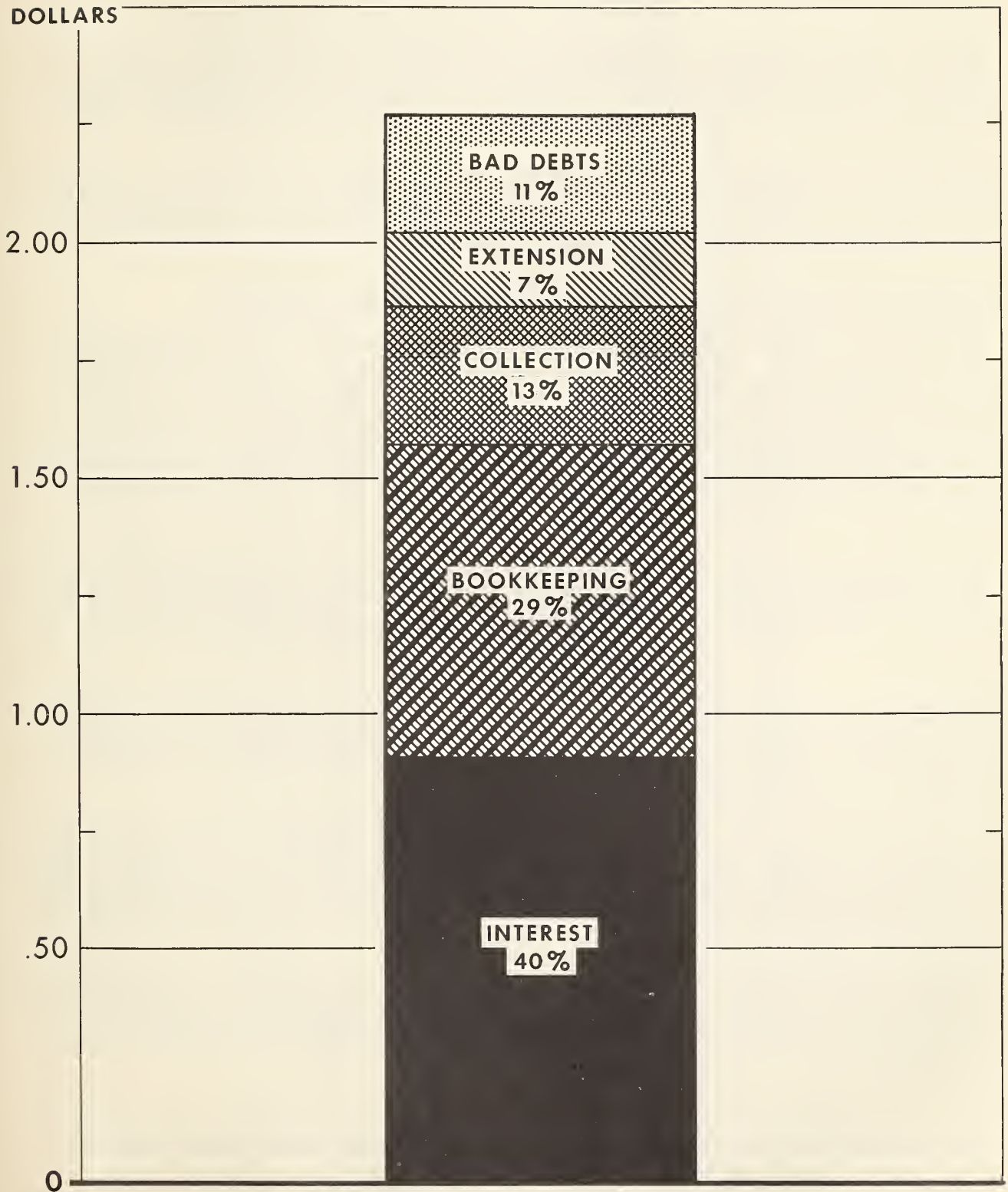


Figure 2 presents the cost estimates by type of expense. Interest costs to the cooperative on average accounts made up 40 percent of total costs. Book-keeping and collection costs were 29 and 13 percent, respectively. Estimated cost of extending credit represented 7 percent and bad debts 11 percent of total costs.

Credit costs for \$100 of average monthly accounts receivable were \$13.30. This may appear high but service charges, including interest, of a large mail-order business are from 19 to 20 percent on average monthly balances. Hence, these estimates of credit costs in supply cooperatives may be under stated.

These cost estimates, in which interest and bad debts account for only half the total cost, bring out the necessity of recognizing all the costs of credit services. To assure equitable treatment of members, patrons should pay for services rendered just as they now receive refunds based on patronage.

Economies from Borrowing to Pay Cash to Farm Supply Cooperative

While patrons have been encouraged to use existing credit agencies instead of open-account credit at their supply cooperative, the financial benefit of such action has not often been indicated. A calculated comparison reported for Area III may be helpful as a starting point. 1/ This area included Wisconsin, Minnesota, North and South Dakota, and Northern Iowa. Detailed comments from this report on comparative costs of credit in supply cooperatives and in established lending agencies for this area are included in the appendix.

This analysis showed that credit can be obtained from PCA's for about 4 months at about the same cost as for 2 months at a farm supply cooperative in that area. These comparisons warrant consideration of both management and patrons.

Patrons Using Credit

The matter of patron equity in credit costs would be less important if the services were used in proportion to patronage by all patrons. But patrons vary in their use of credit, both in percent of purchases made on credit and length of time credit is used.

In eight associations about 4 out of 5 patrons used credit at least one time in the last fiscal year. However, only 2 of 5 patrons had accounts with their association at the close of the fiscal year. The proportion of patrons with year-end accounts varied by associations from a low of 20 percent to a high of 78 percent (table 6).

The 10 largest account holders in each of these 8 cooperatives, on the average, accounted for a fourth of the total volume of year-end accounts receivable. Yet, these 10 patrons represented only 2 percent of all patrons with accounts (table 6).

1/ Eichers, T. R., Credit Control in Selected Retail Farm Supply Cooperatives - Area III, General Report 43 (In process).

Table 6 - Patrons using credit in eight local farm supply cooperatives in the Pacific Northwest, 1955-56

Association code	Accounts receivable at end of fiscal year	Proportion of patrons with accounts receivable	Proportion of total amount of accounts receivable in 10 largest accounts	Proportion of total number of accounts represented by 10 largest accounts	Proportion of total purchases made by 10 patrons with largest accounts	Proportion of accounts receivable under 30 days of age	
						10 largest accounts	All accounts
	Number	Percent	Percent	Percent	Percent	Percent	Percent
3	680	23	19	1.5	2.6	6	18
4	556	62	23	1.8	4.7	16	42
5	701	20	12	1.4	3.8	30	55
6	233	78	44	4.3	1/	1/	1/
7	600	40	27	1.7	3.2	21	42
8	351	56	27	2.8	1/	1/	1/
9	489	35	27	2.0	1/	1/	1/
11	510	23	16	2.0	6.3	45	45
Average	515	42	24	2.2	4.1	24	40

1/ Data were not available.

In five associations with accounts aged, the average proportion of accounts receivable under 30 days was 24 percent for the 10 largest accounts. This compared unfavorably with the average of 40 percent for all accounts.

Some managers believed the contribution of large volume purchases offset credit costs. In this study, the 10 patrons in each association with the largest accounts were responsible for 25 percent of year-end accounts but in 5 associations these patrons did only about 4 percent of total volume.

Area Comparisons

Comparative measures of credit operations for three areas in which credit studies have been made to date are shown in table 7. Area I included Michigan, Ohio, Indiana, and Pennsylvania. Area II comprised the States in this study -- Washington, Oregon, Idaho, and Utah. Area III included Wisconsin, Minnesota, North and South Dakota, and Iowa.

The 11 cooperatives in this study compared unfavorably by these measures of credit performance with 8 associations in Area I and 22 in Area III. Volume had increased in all areas but considerably more in Areas II and III. The proportion of sales on credit was about the same.

Accounts receivable increased 92 percent in Area II compared to 62 and 71 percent in Areas I and III. In terms of days' sales in accounts receivable, Area II had 23 with 14 and 19 days respectively for Areas I and III. While Area I had an average of 47 percent of accounts under 30 days of age these 11 associations averaged only 40 percent. The less current condition of accounts receivable was also shown in the number of days of credit sales. Area II associations had 46 days compared to 25 for those in Area I.

Estimated credit costs were \$2.27 for \$100 of credit sales in Area II compared to \$1.70 in Area I. The proportion of assets in accounts receivable in this group was 14 percent as against 10 percent for Areas I and III.

Table 7 - Measures of credit operations in retail farm supply cooperatives in three areas of the United States

Item	Area		
	I	II	III
	<u>Percent</u>		
<u>For 5-year period studied 1/</u>			
Increase in farm supply sales	12	20	30
Increase in accounts receivable	62	92	71
<u>For last year of study 1/</u>			
Percent of retail sales on credit	65	68	66
Percent of total retail sales in accounts receivable at year-end	5	8	6
Percent of credit sales in accounts receivable at year-end	7	12	10
Percent of accounts receivable under 30 days of age	47	40	41
Percent of assets in accounts receivable at year-end	10	14	10
	<u>Days</u>		
Number of days' retail sales in accounts receivable at year-end	14	23	19
Number of days' credit sales in accounts receivable at year-end	25	46	41
Number of days' credit sales in average accounts receivable	34	55	60
	<u>Dollars</u>		
Estimated cost of credit per \$100 of credit sales	1.70	2.27	2.45
Estimated cost of credit per \$100 of average accounts receivable	16.80	13.30	13.40
	<u>Number</u>		
Number of associations included in each study	8	11	22

^{1/} Areas I and II covered period from 1951-52 to 1955-56. Area III covered period from 1952 to 1956.

A P P E N D I X

Economies from Borrowing to Pay Cash to Farm Supply Cooperatives 2/

Average credit costs of the supply cooperatives amounted to \$24.50 for each \$1,000 of credit sales. Their credit sales were 66 percent of total sales, and the average length of time accounts receivable were outstanding was 2 months. The credit patrons stood only a part of the credit costs because such costs were included in total operating expenses and thus spread over total retail sales - both cash and credit. If these supply associations were to adopt a cash policy, the present cash patrons would gain in patronage refunds because their business has been absorbing 34 percent of the cooperatives' cost of handling credit.

Patrons who are using credit also could gain if the associations were to adopt a cash policy. They perhaps could borrow money at 7 percent interest for 2 months at a cost considerably less than the cost the supply cooperative incurs in carrying credit sales an average of 60 days. In fact they could borrow money at 7 percent for approximately 4 months and pay no more than the cost of 2 month's credit at their cooperative. If they paid interest only on the unpaid or declining balances, this period would be about twice as long. This relationship of 4 months versus 2 months is about the same as that indicated when the costs of borrowing are 7 percent for the patron and the credit costs are 13.4 percent on outstanding accounts for the cooperative.

The schedule following shows the costs of borrowing \$1,000 at 7 percent interest on the face amount for varying lengths of time and the saving over the \$24.50 cost for \$1,000 of credit business at the cooperative.

<u>Length of loan Days</u>	<u>Interest charge at 7 percent</u>	<u>Saving over credit cost of \$24.50 at cooperative</u>
60	\$11.66	\$12.84
90	17.50	7.00
120	23.32	1.18

Costs of granting open account credit to farmers by supply cooperatives are higher than costs of making production loans by established lending agencies. As mentioned, credit costs of these cooperatives amounted to 13.4 percent of their average accounts receivable, and patrons could have borrowed money from local lending agencies at about half this cost. Several factors that account for the higher cost of credit in the local cooperatives follow:

1. Interest Costs. -- Interest rates paid for money by the local cooperatives are higher than interest rates paid by lending agencies. Cooperatives borrow from the Bank for Cooperatives or other lending agencies at about 6 percent interest, and PCA's borrow from the Federal Intermediate Credit Banks at less than half this cost.

2/ Extract from Eichers, T. R., Credit Control in Selected Retail Farm Supply Cooperatives - Area III, General Report 43 (In process).

2. Costs of Extending Credit. -- Credit extension costs are greater for the local cooperatives because credit is extended daily on open accounts in relatively small amounts for short periods. PCA's and banks lend money only in sizable amounts for several months or a year. Many more transactions, therefore, occur per \$100 of credit at the cooperatives than at credit agencies.

3. Bookkeeping and Collection. -- These costs are greater at the cooperatives for the same reasons as those listed for credit extension. Also, the accounts at cooperatives are unsecured.

4. Bad Debt Losses. -- Such losses are greater in the cooperatives because loans are unsecured and often no definite repayment schedule is designated.

5. Specialization. -- The management and employees of farm supply cooperatives are trained to purchase and distribute farm supplies to patrons, while those of credit agencies are trained to lend money on a sound and efficient basis.

The following tabulation illustrates credit costs of 16 farmer-owned supply cooperatives in this study and credit costs (total operating costs) in 1957 of 52 farmer-owned lending institutions in the same area:

<u>Item</u>	16 farm supply cooperatives	52 production credit associations
	<u>Percent</u>	<u>Percent</u>
Interest.....	<u>1/</u> 6.0	4.1
Extending.....	1.2)
Bookkeeping.....	3.6) 2.5
Collection.....	2.2)
Bad debts.....	<u>0.4</u>	<u>0.2</u>
Cost to the lender.....	13.4	6.8

1/ Apparently some cooperatives included about 1 1/8 percent for capital stock investment in with interest paid to the bank for cooperatives in their district.

